SINGAPORE

Trade and Investment Incentives Applicable to Machinery, Electronics and Autoparts

I. TRADE AND INVESTMENT INCENTIVE SCHEMES

2009 Government Budget

The FY 2009 Budget for Singapore, worth SGD 20.5 billion allocates SGD 4.4 billion to cover funding for infrastructure, health and education, which includes machinery, electronics and automobiles and parts. The remaining amount is allocated as follows: SGD 5.1 billion to preserve jobs, SGD 5.8 billion to boost bank lending, SGD 2.6 billion to bolster businesses, the same amount (SGD 2.6 billion) to aid households. The government has focused a lesser amount of its budget to machinery, electronics and automobiles, but a greater amount on job creation, bank lending and business grants. Machinery, electronics and automobile industries can still benefit from business grants, and from the amount allocated to job preservation if they can prove that they have increased employment during the economic recession.

The table below details a breakdown of the FY 2009 budget's SGD 20.5 billion.

Budget Breakdown	Amount (SGD)
Job Preservation	SGD 5.1 billion
Boost Bank Lending	SGD 5.8 billion
Business Grants	SGD 2.6 billion
Support Households	SGD 2.6 billion
Education, Health and Infrastructure	SGD 4.4 billion

Source: Singapore Inland Revenue, 2009

Tax Incentives

Corporate Income Tax (CIT). The government has proposed a 1 percentage point reduction in the CIT to 17 percent, from 18 percent. This cut will take effect from FY 2010 and will cost the government an estimated SGD 400 to 500 million a year. The rate cut is aimed at increasing business cash-flow, strengthening businesses' financial capabilities, boosting competitiveness, and incentivizing all business operations, including those that fall under HS Chapters 84, 85 and 87. The corporate tax structure as proposed under the budget is as follows:

Amount of chargeable income	Effective tax rate	
	2009	2010
First SGD 10,000	4.5%	4.25%
Next SGD 290,000	9.0%	8.50%
In excess of SGD 300,000	18.0%	17.0%

For Start-ups and SMEs. The government grants all SMEs cash rebates on the first SGD 80,000 of total employer and employee Central Provident Fund (CPF) contributions over two years:

- In the first year (July 1, 2007 to June 30, 2008), the rebate is two percent of the first SGD 40,000 of total CPF contribution and one percent of the next SGD 40,000 of total CPF contribution.

– In the second year (July 1, 2008 to June 30, 2009), the rebate is one percent of the first SGD 40,000 of total CPF contribution and 0.5 percent of the next SGD 40,000 of total CPF contribution.

Enhancement of Loss Carry-Back. The Budget enhances the "loss carry-back" relief system, under which firms making a loss in the current year can claim refunds on previous tax payments, with the cap placed on losses rising to SGD 200,000 from SGD 100,000. The scheme will be valid for two years.

Goods and Services Tax. The government has kept the Goods and Services Tax (GST) rate for 2009 unchanged at seven percent, but has doubled GST credits for households for FY 2009. GST is not charged on zero-rated supplies, meaning transactions with GST of zero percent. Manufacturers will apply for zero-rated GST if all goods and services are exported. GST is not chargeable on exempt supplies, of which there are two categories - sale and lease of residential land; and financial services, *i.e.* HS Chapters 84, 85 and 87 do not apply, and are thus chargeable.

The Bridging Loan Program. Because lending has reduced since the economic crisis, the government has acted to boost bank lending through a new bridging loan program, which builds on a similar scheme introduced in November 2008. The Bridging Loan Program will be worth up to SGD 5 million, an increase from the previous amount of SGD 500,000. The program will fall under the Special Risk-Sharing Initiative (SRI) package. The government will take on a higher share of the risk associated with these loans: as high as 80 percent, up from the previous ceiling of 50 percent. The government has set aside SGD 390 million in loan-loss provisions under the SRI scheme. Through this lending scheme and other initiatives, the government aims to boost total banking-sector loans to SGD 11 billion in FY 2009.

For start-ups and SMEs, the government will grant a full tax exemption on the first SGD 100,000 of chargeable income. The government will also extend SME loan support through its Bridging Loan Program to SMEs and foreign companies.

Job Credits Scheme. The government also provides companies with job credits, which are equivalent to a nine percent cut in the Central Provident Fund (CPF). The budget's job credit scheme will encourage firms to retain Singaporean employees and avoid mass lay-offs by firms struggling to remain in business. Employers will receive a 12 percent cash grant, which will cover the first SGD 2,500 for each month's wage per employee on their CPF payroll. Employers receive the job credits in March, June, September and December of 2009. The government has also offered SGD 900 million towards the Skills Program for Upgrading and Resilience (SPUR) innovation and training scheme. This scheme helps Singaporean employees upgrade their skills to remain employed or seek re-employment. The Government launched the SPUR scheme in December 2008.

<u>Summary of all Other Investment Incentives that Apply and Restrictions</u>

Investment Incentives	Qualifying Activities	Minimum Requirements	Tax Concession and Grants
Double Tax Deduction Scheme	Manufacturing and services industries.	To qualify, companies are required to mee the following criteria: (i) be a resident company or have a permanent establishment in Singapore, and (ii) be an active operating/trading company with the primary purpose of promoting the trading	Allows approved companies to deduct the eligible expenses incurred for approved projects twice against their taxable income.

Investment Incentives	Qualifying Activities	Minimum Requirements	Tax Concession and Grants
		of goods or provision of services.	
Enterprise Development Fund (EDF)	Awarded to SMEs, including those in the machinery, electronics and automobile industries.	SMEs are required to have at least 30 percent local shareholdings and a fixed asset investment not exceeding SGD 15 million.	Assistance provided is up to 50% of cost of engaging external experts for an approved short-term assignment depending on the scope, depth and effectiveness of the assignment.
Enterprise Investment Incentive (EII)	Investments in start-up companies that are primarily engaged in innovative and high growth activities with substantial developmental contents in relation to a specific product or service.	To qualify, companies must be incorporated in Singapore; be an unlisted company in its initial years with paid-up capital of more than or equal to USD 10,000; & conduct start-up activities wholly or mainly in Singapore. No restriction in the ownership profile applies.	Investors are granted tax deduction for losses incurred, or if they have to sell their shares at a loss. Maximum period of approved status 5 years.
International Development Scheme	Manufacturing and Service Activities.	Companies must be based in Singapore and have an annual total business spending of S$ 1 million.	Companies are granted tax concessions for an initial period of 10 years, which can be extended for another 10 years.
International Trade Incentives	Companies that develop overseas markets for Singapore products and offshore trade in non-traditional products.	Manufacturers or exporters are required to export Singapore goods and produce a turnover of 10 to 20 million annually.	Companies are offered 50% tax concession on qualifying export income over base rate.
Investment Allowance	Approved construction operations.	Investors are granted a qualifying period of 5 years within which investments must be made.	Companies are granted exemption of taxable income of an amount equivalent to a specified percentage (up to 100%) of the approved expenditure on the production plant.
Production for Export	Manufacturing and services industries.	Exports are required to be greater than SGD 100,000 and 20 percent of company's total sales.	5 to 15 years of 90 percent of qualifying export profit.

II. RESTRICTIONS TO UTILIZE THESE PROGRAMS

Singapore's incentive programs are coordinated by the Ministry of Finance through the Internal Revenue Authority of Singapore (IRAS) and SPRING for SMEs. The government plays a key role in driving Singapore economic development through the granting of fiscal incentives. The allocation of an incentive depends primarily on such considerations as the amount of investment involved, the technical output, the export potential, the employment opportunities and the general conduciveness to Singapore economic activity.

Most incentives are granted under the Economic Expansion Incentives (Relief from Income Tax) Act and can be subdivided into four categories, incentives for manufacturing and service companies, incentives for financial services companies, incentives which are aimed at specific sectors of the economy and incentives which apply to all sectors of the economy.

According to a one-on-one interview with a Singapore-Based SME, the application process for government incentive programs may require a substantial amount of paperwork, but are often straightforward and take up to four to eight weeks.

However, restrictions to the programs may apply, these include the following:

- A lack of information on the part of the company/investor/SME of the various investment incentive programs available, despite the efforts from SPRING and the other government agencies

- A lack of thorough research by the government body or agency of the recipient of the investment incentive, before the application for the incentive is rejected

III. FTA vs. INVESTMENT INCENTIVE PROGRAMS

FTAs cannot really replace certain incentive programs. For instance, all firms would like to have their activity favored under the next fiscal budget. However, from an interview with an electronics company in Singapore, we found that the company utilized the incentive programs in Singapore as well as economic zones outside of Singapore (in ASEAN countries located outside of Singapore) rather than FTA concessions.